

STATE OF NEW HAMPSHIRE
INFORMATION STATEMENT SUPPLEMENT

DATED MAY 19, 2006

***Information Statement Supplement.** The following information is provided by the State of New Hampshire (the "State") to supplement the information contained in the State's most recent Information Statement dated December 6, 2005 (the "Information Statement"). The Information Statement is available on the New Hampshire Treasury Department website as Part II of the Official Statement entitled "State of New Hampshire General Obligation Capital Improvement Bonds 2005 Series C" and may be found at the following website address - <http://www.nh.gov/treasury/Divisions/DM/DMdocs.htm>. The headings set forth below correspond to the same headings in the Information Statement. This Supplement (the "Supplement") only sets forth additional information concerning the matters described below as of the date of this Supplement and is subject to change without notice.*

STATE FINANCES

Fiscal Year 2006-2007 Budget

The following table compares on a cash basis, for the ten months ended April 30, 2006, General Fund and Education Fund unrestricted revenues for the Fiscal Years 2005 and 2006 and a comparison to the revenue estimates for Fiscal Year 2006. The revenue estimates reflected in the plan are based on those revenues defined in Chapter 176, Laws of 2005, the State budget law for Fiscal Year 2006. Due to the combined filing of the business profits tax and business enterprise tax, it is not possible to measure accurately the individual effects of each of these taxes. They should be evaluated in their entirety. All information in this table is preliminary and unaudited.

**GENERAL FUND AND EDUCATION FUND UNRESTRICTED REVENUES
FOR THE TEN MONTHS ENDED APRIL 30, 2006
(Cash Basis-In Millions)**

Revenue Category	FY05	FY06	FY06	FY06 vs Plan		FY06 vs FY05	
	Actual	Actual	Plan	Variance	%Change	Variance	%Change
Business Profits Tax	\$176.3	\$197.2	\$232.3	\$(35.1)	(15.1)%	\$20.9	11.9%
Business Enterprise Tax	<u>199.2</u>	<u>248.1</u>	<u>170.1</u>	<u>78.0</u>	<u>45.9</u>	<u>48.9</u>	<u>24.5</u>
Subtotal	375.5	445.3	402.4	42.9	10.7	69.8	18.6
Meals & Rooms Tax	163.2	170.5	174.4	(3.9)	(2.2)	7.3	4.5
Tobacco Tax	82.6	120.6	121.4	(0.8)	(0.7)	38.0	46.0
Liquor Sales and Distribution	94.4	99.6	100.9	(1.3)	(1.3)	5.2	5.5
Interest & Dividends Tax	56.0	68.5	58.7	9.8	16.7	12.5	22.3
Insurance Tax	70.8	71.3	74.0	(2.7)	3.6	0.5	0.7
Communications Tax	56.9	58.8	59.3	(0.5)	(0.8)	1.9	3.3
Real Estate Transfer Tax	130.3	133.6	141.3	(7.7)	(5.4)	3.3	2.5
Estate and Legacy Tax	9.3	4.2	5.8	(1.6)	(27.6)	(5.1)	(54.8)
Transfers from Lottery/Pari-Mutuel	52.7	60.6	56.1	4.5	8.0	7.9	15.0
Tobacco Settlement	42.4	39.0	43.0	(4.0)	(9.3)	(3.4)	(8.0)
Utility Property Tax	15.7	15.1	17.1	(2.0)	(11.7)	(0.6)	(3.8)
State Property Tax	371.3	363.4	363.0	0.4	0.1	(7.9)	(2.1)
Other	<u>121.1</u>	<u>126.4</u>	<u>126.4</u>	-	-	<u>5.3</u>	<u>4.4</u>
Subtotal	1,642.2	1,776.9	1,743.8	33.1	1.9	134.7	8.2
Net Medicaid Enhancement Revenues	123.3	73.6	72.8	0.8	1.1	(49.7)	(40.3)
Recoveries	<u>15.5</u>	<u>23.1</u>	<u>14.6</u>	<u>8.5</u>	<u>58.2</u>	<u>7.6</u>	<u>49.0</u>
Subtotal	1,781.0	1,873.6	1,831.2	42.4	2.3	92.6	5.2
Other Medicaid Enhancement Revenues to Fund Net Appropriations	<u>21.8</u>	-	-	-	-	<u>(21.8)</u>	<u>(100.0)</u>
Total	<u>\$1,802.8</u>	<u>\$1,873.6</u>	<u>\$1,831.2</u>	<u>\$42.4</u>	<u>2.3%</u>	<u>\$70.8</u>	<u>3.9%</u>

Revenues for the first ten months of fiscal year 2006 are \$1,873.6 million, which is \$42.4 million or 2.3%, ahead of plan. Year-to-date revenue is ahead of fiscal year 2005 by \$70.8 million, or 3.9%, which can be attributed mainly to increased collections from aggregate business taxes, the Tobacco Tax, and the Interest and Dividends Tax. Business tax revenue exceeded the year-to-date plan by \$42.9 million and was \$69.8 million, or 18.6%, above fiscal year 2005. The increase in business tax revenue over fiscal year 2005 can be attributed mainly to one-time events consisting of revenues from audit settlements and revenues collected from companies that elected to repatriate foreign earnings as a result of changes in federal tax law contained in the American Jobs Creation Act of 2004.

There are currently several proposals in the legislature to increase appropriations for various purposes. In addition, there is proposed legislation that would reduce the insurance premium tax beginning in fiscal year 2008 for the purpose of stimulating economic development by retaining current domestic insurance companies and recruiting other companies. It is estimated that the decrease in insurance premium tax revenue would be partially offset by the State's premium tax provision which requires a foreign insurer domesticated in a state with a higher rate than the State's rate to pay the higher rate on New Hampshire premiums. It is also estimated that the decrease in the insurance premium tax rate would reduce the insurance premium tax credit used to offset the Business Profits Tax, resulting in

an increase in general fund unrestricted revenue that would also partially offset the decrease in insurance premium tax revenues. The State cannot predict whether any of these proposals will be enacted.

SCHOOL FUNDING

Litigation. In 2005, the Legislature passed House Bill 616, now known as 2005 New Hampshire Laws Chapter 257, as the new education funding bill. Chapter 257 provides funding to schools based on four types of aid and revenue from the statewide enhanced education tax. Chapter 257 does not generally provide aid to municipalities on a per pupil basis. The four types of aid are: local tax capacity aid, targeted per pupil aid, statewide enhanced education tax capacity aid, and transition grants. Chapter 257 also includes the statewide enhanced education tax which is assessed at a uniform rate across the State at a rate necessary to raise \$363.0 million. For fiscal year 2006, the total State education aid under Chapter 257 is more than \$819.0 million.

Two lawsuits were filed challenging the constitutionality of Chapter 257. The first is *City of Nashua v. State*, Docket No. 05-E-257, and the second is *Londonderry School District, et al. v. State*, Docket No. 05-E-406. Both of these suits were filed in August, 2005 in the Supreme Court. Both were dismissed from the Supreme Court with direction to the Superior Court that they be tried on an expedited basis.

Nashua's Petition included four general claims: 1) a challenge to Chapter 257 for not providing for an adequate education by failing to "relate the taxes raised by it to the cost of an adequate education," 2) a claim that Chapter 257's transition grants create disproportional and unequal taxes, 3) a claim challenging Chapter 257's "reliance upon three-year old data to fund the cost of an adequate education today," and 4) a claim questioning whether Chapter 257 requires the use of data from April, 2003 for 'Equalized Valuation With Utilities' in order to correctly calculate the education grants under Chapter 257.

Londonderry's Petition included the following four general claims: (1) an alleged facial challenge to HB 616 that "it fails to provide for an adequate education" because there is "nothing in the legislative record [that] would support a determination that the total funds to be distributed are 'lawfully and reasonably sufficient' to fulfill the State's constitutional obligation," (2) a claim that targeting aid to some municipalities has imposed on many of the remaining municipalities the burden of funding education through a local education tax, (3) a claim which asserts that HB 616 violates Part II, Article 5 because it results in property taxes that are not "proportional across the State" due to the transition grants, and (4) an equal protection claim.

The State moved to consolidate both cases but the Court allowed the cases to proceed on different tracks. The Nashua case was tried in mid-December 2005. The Londonderry case proceeded with a motion for summary judgment filed in January, 2006, with the State filing a timely response in February, 2006. On March 8, 2006, the Superior Court issued orders in both cases declaring Chapter 257 unconstitutional due to the State's failure to reasonably determine the cost of an adequate education. The Superior Court also found that the State has not defined an adequate education and has not enacted a constitutional accountability system.

The State filed, and the Court granted, an assented-to motion to stay the effect of the orders pending a final decision by the Supreme Court. The State filed timely appeals of these orders with the New Hampshire Supreme Court on April 7, 2006. The Londonderry Petitioners filed a timely cross-appeal in which they request that the Supreme Court order a remedy requiring the current law stay in effect during the 2007 and 2008 fiscal years in order to ensure funding to school districts.

The Supreme Court scheduled the Londonderry case for expedited briefing and argument. The State filed its opening brief on May 10, 2006. The State argued that the Superior Court applied the incorrect standard of review in not presuming the statute was constitutional; the State's definition of an adequate education is complete and constitutional; the State's delivery system for education provides substantive accountability; the funding formulae were enacted by the Legislature with sound legislative findings and can only be challenged through the development of a factual record; and the statewide property tax is not disproportionate based on the grants provided to municipalities to fund education. Petitioners must file their brief on May 31, 2006. Oral argument will occur on June 22, 2006. The decision is expected by the end of the summer. Nashua's case will be heard later as it requires a transcript be created.

The State is unable to predict the outcome of these matters at this time.

STATE INDEBTEDNESS

The State issued its \$75,000,000 General Obligation Capital Improvement Bonds, 2005 Series C, on December 20, 2005 for the purpose of financing various capital projects.

LITIGATION

General Electric ("GE") appealed a decision by the Department of Revenue Administration ("DRA") claiming that the dividends received deduction allowed under RSA 77-A:4, IV should be invalidated because the statute discriminates against foreign commerce in violation of the commerce clause of the United States Constitution and results in unfair taxation out of proportion to GE's activities in New Hampshire in violation of the Due Process and Commerce Clauses of the United States Constitution.

In 2001, GE and DRA executed two settlement agreements substantially resolving GE's business profit tax liability for multiple tax years. The settlement agreements did not resolve the foreign dividend issue, which is the issue in this appeal, concerning tax years 1990-1999.

On August 19, 2005, the Merrimack County Superior Court issued an order granting DRA's Motion to Dismiss and its Motion for Summary Judgment. GE moved for reconsideration, which was partially granted on one factual issue, and then appealed to the New Hampshire Supreme Court in September. The parties have submitted their briefs to the New Hampshire Supreme Court. Oral argument has not yet been scheduled. If the issue is resolved in GE's favor, DRA would be required to refund approximately \$3.2 million to GE. The State could face other potential claims for refunds if other taxpayers were to challenge the statute. It is not possible to predict at this time the outcome of this case or the amount of any other potential claims.

For additional information relating to litigation involving the State, see also Note 13 to the State's fiscal year 2005 audited financial statements, which are available as described below.

FINANCIAL STATEMENTS

As described in the Information Statement under the heading "FINANCIAL STATEMENTS," the preparation and release of the audited financial statements for fiscal year 2005 was delayed due to certain matters pertaining to the New Hampshire Retirement System (NHRS). The State has now released its audited financial statements which are contained in the Comprehensive Annual Financial Report for Fiscal Year 2005 (the "FY 2005 CAFR"), which is being filed on the date hereof with each nationally recognized municipal securities information repository currently recognized under Securities and Exchange Commission Rule 15c2-12.

The NHRS is typically included in the State's financial statements as a fiduciary component unit of the State. However, as a result of the issues relating to the NHRS described in the Information Statement under the heading "FINANCIAL STATEMENTS," the NHRS financial information has not been included in the audited financial statements contained in the FY 2005 CAFR referenced herein. Because the financial statements of the NHRS have not been included as required by U.S. generally accepted accounting principles, KPMG LLP has issued a qualified opinion on the State's financial statements. For the full text of the opinion of KPMG LLP with respect to the State's financial statements for fiscal year 2005, see pages 14 and 15 of the FY 2005 CAFR. The release date of the audited financial statements of the NHRS is unknown as of the date hereof.

THE STATE OF NEW HAMPSHIRE